UNITED STATES OF AMERICA
FEDERAL TRADE COMMISSION

In the Matter of Schering-Plough Corporation, a corporation, Upsher-Smith Laboratories, Inc., a corporation, and American Home Products Corporation, a corporation.	Docket No. 9297

UPSHER-SMITH'S MOTION TO DISMISS THE COMPLAINT

Under Rule 3.22 of the Commission's Rules of Practice, Upsher-Smith hereby moves for dismissal of the Complaint in its entirety. While Upsher-Smith agrees generally with the arguments set forth in Schering's pending motion for partial dismissal, Upsher-Smith moves separately in order to set forth its own position as to the legal deficiencies of the Complaint.

Dated: July 20, 2001

Respectfully submitted,

WHITE & CASE LLP

By: ____________________

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UNITED STATES OF AMERICA
FEDERAL TRADE COMMISSION

In the Matter of Schering-Plough Corporation, a corporation, Upsher-Smith Laboratories, Inc., a corporation, and American Home Products Corporation, a corporation.	Docket No. 9297

UPSHER-SMITH'S MEMORANDUM IN SUPPORT OF ITS MOTION TO DISMISS THE COMPLAINT

Upsher-Smith vigorously disputes the factual allegations of the Complaint and, if necessary, will disprove them at trial. Even accepting the allegations of the Complaint as true, however, the Complaint is deficient as a matter of law because it does not dispute (i) that the lawsuit between Schering and Upsher-Smith was a bona fide dispute, (ii) that the settlement resolved that dispute by compromise, or (iii) that in the absence of the settlement Schering may have won and thereby blocked Upsher-Smith from the market until September 2006. For this reason the Complaint should be dismissed in its entirety.

I. The Settlement Agreement — Even As Alleged In The Complaint — Was A Lawful Resolution Of A Bona Fide Dispute.

In *Standard Oil Co. v. United States*, 283 U.S. 163 (1931), the United States Supreme Court held: "Where there are legitimately conflicting claims or threatened interferences, a settlement by agreement, rather than litigation, is not precluded by the [Sherman] Act." 283 U.S. at 171. Indeed, the courts have consistently emphasized that the strong policy favoring settlements applies with special force in patent-infringement litigation. For example, in *Aro Corp. v. Allied Witan Co.*, 531 F. 2d 1368 (6th Cir. 1976), the court held: "Public policy strongly favors settlement of disputes without litigation. Settlement is of particular value in patent litigation, the nature of which is often inordinately complex and time consuming. Settlement agreements should therefore be upheld whenever equitable and policy considerations so permit." 531 F. 2d at 1372. *See also Schlegal Mfg. Co. v. U.S.M. Corp.*, 525 F. 2d 775, 783 (6th Cir. 1975) ("The importance of encouraging settlement of patent-infringement litigation . . . cannot be overstated.").

In this proceeding, there does not appear to be any dispute as to the standard upon which to evaluate whether a patent-infringement settlement violates the antitrust laws. Based upon Complaint Counsel's opposition to Schering's motion (p. 13 n.6), Complaint Counsel apparently accept the standard articulated in the leading antitrust treatise, Areeda & Hovenkamp, which states that a patent settlement is lawful where the facts show "that the parties (a) did have a bona fide dispute; and (b) that the settlement is a reasonable accommodation *and* is not more anticompetitive than a likely outcome of the litigation." 12 Hovenkamp ¶ 2046 at 266 (1999) (emphasis in original).

The rationale underlying this standard is apparent from Hovenkamp's discussion and the cases upon which he relies. *Id.* ¶ 2046 at 262-67 (Attached as Exhibit A). The requirement that there be a "bona fide dispute" is designed to prevent parties from using a sham or fictitious dispute to camouflage an otherwise impermissible agreement. The requirement that the settlement be a "reasonable accommodation" is likewise to prevent parties from using the existence of a bona fide dispute to camouflage an agreement having little or no connection to the dispute. In other words, the settlement must address the bona fide dispute rather than ancillary or unrelated issues. Finally, the requirement that the settlement be "not more anticompetitive than a likely outcome of the litigation" protects the public interest underlying the antitrust laws by assuring that competition will not suffer any more than it would have under a reasonably possible litigation result. Notably, in requiring that the settlement be "not more anticompetitive than a likely outcome," this final requirement does not require any "but for" analysis of what the outcome of the litigation would in fact have been, as Schering sometimes seems to suggest. This requirement considers only what outcomes might reasonably have been possible.

The requirements of the Hovenkamp standard are all met here, even accepting the allegations of the Complaint as true.

A. Schering And Upsher-Smith Had A Bona Fide Dispute

The Complaint does not dispute that Schering and Upsher-Smith had a bona fide dispute. To the contrary, the Complaint acknowledges that Schering owned a U.S. patent (¶ 34), that Upsher-Smith filed with the FDA a Paragraph IV certification that it was not infringing or that Schering's patent was invalid (¶¶ 13, 38); that Schering brought suit against Upsher-Smith (¶ 39), that Upsher-Smith "strongly contested" the case (¶ 40), and that after eighteen months of litigation the parties settled the case "on the eve of their patent trial" (¶ 44). *See also Atari Games Corp. v. Nintendo of America*, 897 F. 2d 1572, 1577 (Fed. Cir. 1990) (confirming that "as patents are cloaked in a presumption of validity, a patent infringement suit is presumed to be brought in good faith").[1]

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[1] At one time, knee-jerk counterclaims alleging antitrust violations were common in patent-infringement suits. This had the effect of transforming patent-infringement suits into high-stakes antitrust suits: if the patent holder lost on his infringement claim, the holder might be found to have engaged in an anticompetitive attempt to exclude competition. The courts have resolved this dilemma, holding that a belief by the patent holder that the suit is bona fide will immunize the infringement suit from antitrust challenge. *See, e.g., Zenith Elec. Corp. v. Exzec, Inc.*, 182 F. 3d

(continued...)

B. The Settlement Reasonably Accommodated The Parties' Conflicting Positions

The allegations of the Complaint also indicate that the settlement was a "reasonable accommodation" of the parties' bona fide dispute. The Complaint acknowledges that Schering claimed that its patent excluded Upsher-Smith from the market until the expiration of the patent on September 5, 2006. (¶¶ 34, 39.) The Complaint also acknowledges that Upsher-Smith claimed that the patent did not exclude it from the market at all. (¶¶ 38, 40.) And the Complaint acknowledges that the June 17, 1997 settlement resolved this dispute by permitting Upsher-Smith to enter the market in September 2001. (¶ 44.) The settlement thus accommodated the parties' competing positions, near the mid-point of those positions, by cutting off more than half of the remaining life of the patent as to Upsher-Smith.

C. The Settlement Was Not More Anticompetitive Than A Schering Win

The Complaint does not allege that it was unlikely that Schering would prevail. Indeed in opposing Schering's motion, Complaint Counsel do not dispute that "a likely outcome" (i.e., a reasonably possible outcome) was that Schering would prevail. Instead, Complaint Counsel maintain that the merits of the patent-infringement suit were "irrelevant." This position simply cannot be squared with the standard articulated by Hovenkamp.

If Schering's patent-infringement suit against Upsher-Smith was meritorious, then the settlement was demonstrably pro-competitive. As indicated, the settlement enabled Upsher-Smith

(...continued)

1340, 1353 (Fed. Cir. 1999) (holding that antitrust claimant must prove that "infringement suit was 'a mere sham'"); *Nobelpharma AB v. Implant Innovations*, 141 F. 3d 1059, 1068 (Fed. Cir. 1998) (same); *Atari Games*, 897 F. 2d 1572, 1576 (Fed. Cir. 1990) (same). Here, of course, there is no allegation that Schering's patent-infringement suit was a sham.

to enter the market on September 1, 2001 instead of waiting until the patent expired on September 5, 2006. Consumers thus will have a lower-priced generic alternative to K-Dur 20 five year earlier than they otherwise would have.

Oddly, the Complaint characterizes the settlement as an agreement "to delay the entry of low-cost generic competition" (¶ 1; *see also* ¶ 64) and as an agreement "not to compete" (¶ 66; *see also* ¶ 38 (heading)). If Schering has a valid and infringed patent, then the settlement was in fact an agreement to ***accelerate*** entry, and an agreement ***to*** compete.[2]

Instead of disputing that the settlement may have been pro-competitive as compared to a likely outcome of the patent-infringement suit, Complaint Counsel appear to argue that the settlement was illegal because the parties to it could have negotiated a settlement under which Upsher-Smith would have entered the market before September 1, 2001. In particular, Complaint Counsel posit that Upsher-Smith could have negotiated an earlier entry date in lieu of receiving the alleged monetary consideration from Schering.

The Complaint thus rests upon the proposition that a pro-competitive settlement is illegal because it is not the most pro-competitive settlement possible. This proposition takes black-letter antitrust law — which ordinarily makes only anticompetitive arrangements illegal — and turns it

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2 With a valid and infringed patent, Schering was entitled to exclude Upsher-Smith from the market until September 2006. *See Axis, S.P.A. v. Micafil, Inc.*, 870 F. 2d 1105, 1111 (6th Cir. 1989) ("Patent laws grant a monopoly for a limited time in order '[t]o promote the Progress of Science and useful Arts . . . .' U.S. Const. Art. I, sec. 8, cl. 8. . . . [A] lawfully acquired patent creates a monopoly that does not violate the antitrust laws."). *See also* P. Rosenberg, 1 *Patent Law Fundamentals* Sec. 1.02 (2d ed. 2001) ("The policy of the United States patent laws is that one who has invested his time and labor in developing a new product shall have the benefit of his invention, by being given the right to exclude others completely from the enjoyment of his invention.").

on its head. Looking a gift horse in the mouth, the Complaint pursues a utopian ideal in which courts condone only the most pro-competitive arrangements. Not surprisingly, there is no authority supporting this proposition. No court has forced settling parties to achieve the most pro-competitive of all possible settlements; no patent case could be settled under such a novel and impractical standard.

Indeed, Complaint Counsel's argument is foreclosed by a case relied upon by Hovenkamp, *Carpet Seaming Tape Licensing v. Best Seam, Inc.*, 694 F.2d 570 (9th Cir. 1982). In that case, the district court had held a patent settlement involving a pooling arrangement to be illegal because the court considered a non-exclusive license to be a more satisfactory method for resolving the dispute. 694 F.2d at 579. The Ninth Circuit reversed, holding that "the trial court's speculation as to other preferable alternatives cannot support a finding of illegality." 694 F.2d at 580. Likewise here, the Complaint's speculation that a more pro-competitive settlement might have been reached cannot support a finding of illegality.

Addressing the Hovenkamp standard directly in opposing Schering's motion (p. 13 n. 6), Complaint Counsel do not dispute that Schering may have won the suit or that the settlement was "not more anticompetitive" than a Schering win. Instead, Complaint Counsel argues that the settlement was not a "reasonable accommodation" because it violated *Masonite*, *Singer*, and other Supreme Court precedents. This is a peculiar argument in that the "reasonable accommodation" element appears to relate only to whether the settlement in fact relates to and compromises the dispute, which it clearly does here. In any event, the argument is baseless because the settlement here, even as alleged in the Complaint, does not have the same anticompetitive elements as the agreements in the precedents Complaint Counsel cites.

In *Masonite*, the patentee orchestrated a price-fixing arrangement by imposing price terms in licenses to a variety of competitors. *New Wrinkle* and *Line Material* involved similar price-setting licenses. Those facts bear no relation to the present circumstances, as Upsher-Smith is free to market its Klor Con M 20 on any terms it wishes after September 1, 2001, and there is no allegation to the contrary. In *Singer*, the U.S. patentee joined with European manufacturers to form a patent-pooling arrangement to enforce patents against Japanese competition. Here, there is no allegation that Schering and Upsher formed any agreement to enforce any patents against any other competitors. In all of the cases Complaint Counsel cites, the settlement agreements were unlawful because they were more anticompetitive than any reasonably possible outcome of the underlying patent litigation. In contrast, Upsher-Smith's settlement with Schering brings to market a generic alternative five years earlier than a Schering win would have — certainly a "reasonable accommodation" from the consumers' standpoint.

Although Complaint Counsel focuses on the $60 million licensing fee — an unspecified portion of which is alleged to exceed the value of the five products licensed (¶¶ 44-46, 64) — that consideration is not relevant under the Hovenkamp standard. The determinative factor is whether the parties' settlement is "not more anticompetitive than a likely outcome of the litigation." Here a Schering win was "a likely outcome of the litigation," the settlement was pro-competitive vis-à-vis that outcome, and any cash consideration flowing from Schering to Upsher does not alter the pro-competitive nature of the settlement.

As to the Complaint's allegation that Upsher-Smith agreed to delay marketing even non-infringing generic versions of K-Dur 20, suffice it to say that the Complaint does not allege that Upsher-Smith would have or could have developed and marketed any such product prior to

September 2001. The Complaint thus appears to accept that any alleged limitation on non-infringing generic versions did not have any practical effect.

Finally, as to the Complaint's allegations that the settlement derivatively harmed other generic manufacturers by delaying Upsher-Smith's exclusivity period (¶¶ 47, 66), the Complaint is wrong as a matter of law for two separate and independent reasons. First, as Schering argues, any secondary effects on other generic manufacturers results solely from the Hatch-Waxman Act. No other generic manufacturer is a party to the settlement agreement, and the settlement agreement does not place any private restraint upon any other generic manufacturer. The Complaint's concern is with Congress, not Upsher-Smith or Schering. Under *Noerr-Pennington* (as well as principles of causation and antitrust injury), such a concern cannot support an antitrust claim.

Second, any other generic manufacturer is able to trigger Upsher-Smith's exclusivity by obtaining a "court decision" that Schering's patent is invalid or not infringed. *Teva Pharms., USA v. United States Food & Drug Admin.*, 182 F. 3d 1003, 1009-10 (D.C. Cir. 1999) (holding that generic manufacturer other than the first ANDA filer may bring suit to trigger first ANDA filer's exclusivity rights under Hatch-Waxman); *Minnesota Mining and Manuf. v. Barr Labs.*, 139 F. Supp. 2d 1109 (D. Minn. 2001) (same). This means that, contrary to the Complaint's assertion (¶ 47), the settlement between Upsher-Smith and Schering could not possibly have "preserved a barrier to generic competition."

The settlement, in short, was plainly a far less anticompetitive outcome than a Schering win would have been. The settlement allowed Upsher-Smith to enter the market in September 2001 instead of September 2006, and it did not prejudice the rights of any other potential competitors. Under the Hovenkamp standard — a restatement of applicable law that Complaint

Counsel appear to accept — the settlement agreement thus was a lawful resolution of a bona fide patent dispute.

CONCLUSION

For all of the foregoing reasons, the Complaint should be dismissed in its entirety.

Dated: July 20, 2001

Respectfully submitted,

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Volume XII

Antitrust Law

An Analysis of Antitrust Principles and Their Application

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licensees — that they will jointly challenge the validity of intellectual property held by others is protected activity[2]; as is an agreement among intellectual property holders and licensees to defend their rights by bringing infringement suits. As one decision stated, "[i]t is not a violation of the antitrust laws for parties with common interests to utilize the courts to protect their business or economic interests from competitors."[3]

¶2046. Settlements Resolving Intellectual Property Disputes

Our legal system encourages all firms, including those with conflicting intellectual property claims, to settle their differences out of court.

In the case of conflicting intellectual property rights these settlements often take the form of unrestricted or restricted licenses, which may or may not be exclusive; cross-licensing arrangements; pools; agreements not to license third parties or to license only jointly; or market division or field-of-use agreements. Further, the agreements are quite typically horizontal, for the firms are either actual or at least potential competitors in the market for the ultimate product and may be competitors in the innovation market itself. As a result, at least some settlement agreements raise significant antitrust issues and some would be illegal per se if created in the absence of a genuine intellectual property dispute. Many of the cases discussed in this subchapter are antitrust challenges to arrangements that were undertaken in settlement of an intellectual property dispute.[1]

2. Pre-*Noerr* decisions to the contrary should be considered as overruled. See, e.g., *Jones Knitting v. Morgan*, 361 F.2d 451 (3d Cir. 1956) (condemning an agreement among fabric producers to challenge the validity of a patent for a lightweight fabric).

3. *Columbia Pictures Indus. v. Red Horne*, 749 F.2d 154, 161 (3d Cir. 1984). See also *A & M Records v. A.L.W.*, 855 F.2d 365 (9th Cir. 1988) (*Noerr* protects agreement among record companies both to lobby Congress for copyright protection as against firms that rented rather than sold their recordings; as well as a subsequent jointly brought infringement suit against such companies); *Circuit-Breaker Litigation*, 984 F. Supp. 1267 (C.D. Cal. 1997) (*Noerr* protects joint lawsuit by circuit breaker manufacturers claiming trademark infringement). Cf. *Gould v. Control Laser Corp.*, 462 F. Supp. 685, 693 (M.D. Fla. 1978), aff'd in part and appeal dismissed in part, 650 F.2d 617 (5th Cir. 1981) (rivals may join forces to challenge patent validity even if their subjective purpose is anticompetitive); *Lemelson v. Bendix Corp.*, 621 F. Supp. 1122 (D. Del. 1985) (joint defense by third-party defendants in patent infringement suit not antitrust violation).

¶2046 n.1. E.g., *United States v. Singer Mfg. Co.*, 374 U.S. 174 (1963) (disapproved settlement agreement involved pooling plus exclusion; see ¶2043b2); *United States v. Huck Mfr. Co.*, 227 F. Supp. 791 (E.D. Mich. 1964), aff'd by an equally divided Court, 382 U.S. 197 (1965) (settlement included cross-licensing with price restrictions; see ¶2041a); *United States v. New Wrinkle*, 342 U.S. 371 (1952) (cross-licensing with price restrictions; see ¶2043); *Hartford-Empire Co. v. United States*, 323 U.S. 386, clarified, 324 U.S. 570 (1945) (horizontal customer restrictions; dis-

Nevertheless, assuming a genuine dispute, the outcome of even a settlement agreement producing a per se antitrust violation might be no more anticompetitive than the outcome of litigation. A judgment establishing the validity of a rival's claim might suppress a firm's intellectual property rights altogether, leaving the other with a monopoly.

Suppose that A and B have developed potentially conflicting patents for a superior memory device. A claims that B's practice of its patent to make the device infringes on A's patent; B makes the same claim in reverse. The parties begin litigation, but contemplating a long and uncertain path they instead compromise their differences by an agreement that A will manufacture its memory device only in a format to be used by IBM-compatible computers, and B will manufacture its memory device only in a format for use in Apple computers. Formally, this agreement may include a cross-license — that is, A licenses B to use A's patent and B licenses A to use A's patent. Of course, these are cross-"licenses" of patents that both licensees assert are invalid, but the whole point of the settlement is to avoid the cost of litigation that might ultimately determine validity.

This scenario poses a dilemma, notwithstanding our general wish to encourage settlement. First, in the absence of intellectual property rights the agreement in question would be a per se unlawful market division and perhaps even a criminal violation.[2] Second, there is sufficient doubt about the validity or applicability of both patents that each patentee preferred to settle rather than litigate to a decision. Third, a likely outcome of the fully litigated dispute would be a declaration that one firm's patent is invalid, thus yielding the entire market to the other firm; the settlement is certainly no more anticompetitive than that possible outcome and, depending on the circumstances, may be considerably less anticompetitive in that it preserves both firms in the market.

Given these factors, the courts have responded by being fairly generous to settlements where each party's claim seemed reasonably legitimate but also seemed subject to a reasonable risk of fail-

cussed in ¶2044b); *United States v. Masonite Corporation*, 316 U.S. 265, 277 (1942) (cross-licensing with price restrictions; discussed in ¶2041a); *Standard Oil Co. (Indiana) v. United States*, 283 U.S. 163 (1931) (patent pool; discussed in ¶2043b1); *Duplan Corp. v. Deering Milliken*, 444 F. Supp. 648, 683 (D.S.C. 1977), aff'd in relevant part, 594 F.2d 979 (4th Cir. 1979), cert. denied, 444 U.S. 1015 (1980) (cross-license; noted in ¶2043); *Noll v. O. M. Scott & Sons Co.*, 467 F.2d 295 (6th Cir. 1972) (conveyance of disputed patent to trustee; noted in ¶2043); *Philip Morris v. Brown & Williamson Tobacco Corp.*, 641 F. Supp. 1438 (M.D. Ga. 1986) (cross-licensing; discussed in ¶2043b).

2. See Ch. 20D.

ure — that is, each party was in a position where settlement seemed to be a reasonable act.[3] The courts have been far less tolerant when it seems clear that at least one of the parties had no proper motive to settle.[4] Of course, no special deference to a settlement is necessary if the agreement does not pose any risk to competition in the first place.

The *Clorox* decision provides a good example of the issues, although it involves a trademark rather than a patent dispute.[5] The parties were the current owners of the "Pine-Sol" and "Lysol" trademarks, which were applied to various household cleaners, disinfectants, and deodorizers. The owner of the first filed "Lysol" mark had alleged many years earlier that the "Pine-Sol" name was misleadingly similar to its own. After pursuing litigation for a time, the parties settled their dispute by an agreement that restricted the way in which products bearing the name "Pine-Sol" could be advertised and the types of household products that could be sold under the "Pine-Sol" name. Such an agreement would have been a per se unlawful horizontal market definition in the absence of the trademark dispute.[6] In this case, however, there were reasonable questions about whether the "Pine-Sol" name manifested a confusing similarity to the older "Lysol" name. To be sure, a patent examiner had once denied registration of the "Pine-Sol" name because of presumed similarity.[7] The examiner's conclusions were somewhat dubious, however. He reasoned that because one could slur the word "Pine-Sol" into "Pi-Sol," it could be stated in such a fashion as to sound too much like "Lysol." Nevertheless, rather than pursue further litigation the parties worked out an agreement that permitted use of the "Pine-Sol" name, provided that it be used only with a restricted list of products that contained pine oil as an active ingredient.[8] Over the next 20 years further controversy erupted, and the agreement was modified from time to time. The present case was brought by the current owner of the Pine-Sol name, who wished to

3. See, e.g., *Standard Oil*, note 1, at 170 (courts should encourage settlement of "legitimately conflicting claims"); accord *Boston Scientific Corp. v. Schneider (Europe) AG*, 983 F. Supp. 245 (D. Mass. 1997), appeal dismissed, 152 F.3d 947 (Fed. Cir. 1998) (reasonable settlement challenged by competitor as concerted refusal to deal).

4. E.g., *Duplan*, note 1. See also *AG Fur Industrielle v. Sodick*, 1991-1 Trade Cas. ¶69,311 (N.D. Ill. 1990) (allegations that agreement was entered after one party threatened to attack validity of vulnerable patent held by the other).

5. *Clorox Co. v. Sterling Winthrop*, 117 F.3d 50 (2d Cir. 1997).

6. See, e.g., *Blackburn v. Sweeney*, 53 F.3d 825 (7th Cir. 1995) (horizontal agreement limiting advertising in one another's areas per se unlawful); and see ¶2030.

7. See *Clorox*, note 5, at 53.

8. Ibid.

market a new product in conflict with the existing settlement agreement.

In approving the arrangement the court concluded that it really did not amount to a horizontal market division at all: it did not regulate Clorox's right to make or market any product. It merely "regulates the way a competitor can use a competing mark."[9] But that conclusion appears to conflict with the Supreme Court's decision in *Topco*.[10] In that decision the participants were free to develop and operate grocery stores anywhere they chose; the agreement merely forbad them from using the "Topco" brand name in one another's assigned territories. Nevertheless, the court found per se unlawful territorial division.[11] Significantly, in that case there was no dispute about the validity or coverage of the Topco mark.

From that point on, however, the *Clorox* court's analysis is sound. Having found a bona fide dispute and what appeared to be a reasonable attempt to settle it, it applied the rule of reason and dismissed the complaint for lack of any showing of harm to competition.

When analyzing a settlement the courts generally follow this approach. *First,* many settlements result in agreements that would not be unlawful under the antitrust laws even if litigation were not on the horizon. For example, a firm may settle another firm's challenge by unilaterally giving it an unrestricted or restricted license that is undoubtedly lawful. Problems arise only when the settlement agreement itself constitutes, or is likely to constitute, an antitrust violation. Thus the initial question should be whether the agreement is unlawful quite apart from its use to settle a dispute. If the answer is no, then the antitrust challenge should be dismissed.

Second, the general policy of the law is to encourage settlements rather than litigation, as all the cases since *Standard Oil*[12] have observed, and also the government's 1995 Guidelines.[13] As a result, some agreements that would be unlawful if undertaken in the absence of a reasonable dispute may be lawful when used to settle a bona fide dispute. In this category are agreements whose outcomes

9. Id. at 55-56.

10. *United States v. Topco Assocs.*, 405 U.S. 596, 602-603 (1972); see ¶2030c.

11. See also *United States v. Sealy*, 388 U.S. 350, 351 (1967), which applied the per se rule to an agreement forbidding manufacturers from making bedding bearing "Sealy" trademarks in one another's territories but left them free to manufacture bedding bearing other labels.

12. See note 1.

13. Department of Justice and FTC, Antitrust Guidelines for the Licensing of Intellectual Property §5.5 & Example 10 (1995), reprinted in the Supplement as Appendix C ("settlements involving the cross-licensing of intellectual property rights can be an efficient means to avoid litigation and, in general, courts favor such settlements.").

are no more anticompetitive than a likely outcome of intellectual property litigation permitted to run its course. For example, a possible outcome in *Clorox* was a declaration that the Pine-Sol mark was invalid and must be removed from the market altogether. The compromise that the parties actually reached, however, was more competitive, permitting the owner of Pine-Sol to use its mark but restricting advertising and the products on which it could be placed.

But *third,* under the masquerade of a settlement firms might engage in such anticompetitive behavior as market division that would be per se unlawful otherwise. For that reason, once conduct is found that would likely be an antitrust violation in the absence of a settlement, some care must be taken to ensure that the parties (a) did have a bona fide dispute; and (b) that the settlement is a reasonable accommodation *and* is not more anticompetitive than a likely outcome of the litigation. For example, if there were no reasonable dispute in the *Clorox* decision[14] — that is, if the Pine-Sol and Lysol marks were not confusingly similar — then the arrangement in that case would be nothing more than a per se unlawful market division scheme.

In *Standard Oil* the court appointed a special master to determine whether the patents held by the various parties were sufficiently broad to warrant a conclusion that they interfered with one another.[15] By contrast, in *Singer* the record suggested that the parties had reached a settlement in part to avoid drawing attention to prior art that might have resulted in the invalidation of several of their patents.[16]

The Patent Act requires such settlements to be filed with the Patent Office, permitting it to make its own determination whether a reasonable conflict exists.[17] In the process, the attention of government enforcers can be drawn to such agreements as well. Under that provision, a settlement that is not properly filed is unenforceable. In

14. See note 5.

15. *Standard Oil,* note 1, at 180-181. See also *International Manufacturing Co. v. Landon,* 336 F.2d 723 (9th Cir. 1964) (likely "blocking" patents; agreement that two patentees would license others only jointly). And see *Carpet Seaming Tape Licensing Corp. v. Best Seam,* 694 F.2d 570 (9th Cir. 1982) (permitting settlement agreement requiring mandatory package licensing of allegedly blocking patents; several years of actual patent litigation; reversing district court decision rejecting the agreement because mutual nonexclusive licenses would have been less anticompetitive).

16. *Singer* case, note 1, at 199.

17. See 35 U.S.C. §135(c). See *CTS Corp. v. Piher Intl. Corp.,* 727 F.2d 1550, 1555 (Fed. Cir. 1984) (suggesting that §135(c) was designed to prevent the use of anticompetitive settlement agreements); accord *United States v. FMC Corp.,* 717 F.2d 775, 777-778 (3d Cir. 1983); *Moog v. Pegasus Labs.,* 521 F.2d 501, 505 (6th Cir. 1975), cert. denied, 424 U.S. 968 (1976).

any event, a case such as *Clorox*[18] suggests a bona fide dispute because the settlement would not be supported by sufficient consideration were that not the case. Under the agreement the owner of Pine-Sol agreed to restrain its use of that name, but the owner of Lysol made no similar promises in the other direction. The only thing Lysol could have been giving up was its abandonment of an infringement claim with a reasonable likelihood of success.

Fourth, once a sufficient conflict is found, full analysis under the rule of reason is usually called for, including an inquiry into power and anticompetitive effects. One factor in such an analysis is whether the settlement outcome is no more anticompetitive than a likely outcome of litigation.[19]

18. See note 5.

19. See, e.g., *Standard Oil,* 283 U.S. at 175-176 (applying rule of reason and dismissing the complaint because the owners of the potentially conflicting patents did not dominate the market).

UNITED STATES OF AMERICA
FEDERAL TRADE COMMISSION

In the Matter of **Schering-Plough Corporation,** **a corporation,** **Upsher-Smith Laboratories, Inc.,** **a corporation,** **and** **American Home Products Corporation,** **a corporation.**	**Docket No. 9297**

ORDER

Upon consideration of Upsher-Smith's Motion To Dismiss The Complaint and the memoranda submitted in support of and in opposition to the Motion, it is hereby ORDERED that the Motion is GRANTED and that this proceeding is hereby TERMINATED. An initial decision will be filed in accordance with Rule 3.22(e).

Dated: July __, 2001
Washington, D.C.

D. Michael Chappell
Administrative Law Judge

CERTIFICATE OF SERVICE

I hereby certify that on this 20th day of July 2001 I caused copies of the foregoing Upsher-Smith's Motion to Dismiss the Complaint, Upsher-Smith's Memorandum in Support of its Motion to Dismiss the Complaint, and a proposed order to be served upon the following by hand delivery:

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